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ABSTRACT

The educational system is the most important of the institutions that bridge the family and the work place. Because of the role of bridge institutions in providing skills and screening that influence an individual's developmental path, it is important to understand how urban systems allocate scarce opportunities. The purpose of this essay is to describe two models of the opportunity system. The first model, the exchange model, is derived from principles of neo-classical economic theory, and draws upon a well-defined literature. The second model, the grants economy approach, focuses upon nonexchange behaviors that influence opportunity generation. Both models, however, provide insights into two central questions: (1) What determines the developmental opportunity system that confronts individuals? and (2) What principles determine access to alternative paths? (Author/GC)

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ALLOCATING OPPORTUNITIES AND THE SOCIAL ECONOMY OF EDUCATION

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Allocating Opportunities

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Cities are places of opportunities provided by a variety of institutions that dovetail to create developmental paths for individuals. The tendency of individuals to be tracked into one or another developmental path has been widely discussed and empirically supported.[1] We know, for instance that high status families tend to track their progeny into elite prep schools, colleges, and jobs with well-defined advancement opportunities. The prospects are substantially different for the child of a poor family tracked into schools with generally low expectations and achievement scores and then into a day laboring job.

The educational system is the most important of the institutions that bridge the family and the work place. Because of the role of bridge institutions in providing skills and screening that influence an individual's developmental path, it is important to understand how urban systems allocate scarce opportunities. The purpose of this essay is to describe two models of the opportunity system. The first model is derived from principles of neo-classical economic theory. It draws heavily upon a well-defined literature. The second model the grants economy approach, focuses upon nonexchange behaviors that influence opportunity generation. Both models, however, provide insights into two central questions: (1) what determines the developmental opportunity system that confronts individuals? and (2) what principles determine access to alternative paths?

Before describing the grants and exchange models, some abstract concepts and definitions should be made explicit.[2] A development/utilization opportunity (D/UO) is provided by institutions that allow opportunities for skill development or utilization. The concept of "skills" is used in a broad meaning and since skills that are not used often decrease in value to the individual the distinction between development and utilization is necessarily fuzzzy. A development/utilization opportunity path (D/UO Path) is the set of developmental opportunities and institutional affiliations that an individual has used or is likely to use in the future. It is best thought of as a probability branch rather than a determined system. The D/UO Path is a series of sequential institutional affiliations so that D/UO's in early stages limit or widen options available at later stages. Finally the development/utilization opportunity system (D/UO System) is the set of DUO Paths that exist at any one time. Since almost all institutions provide some skill development opportunities, the concept is encompassing. As new institutional alignments evolve the D/UO System changes.

Figure 1

The Development/Utilization Opportunity System

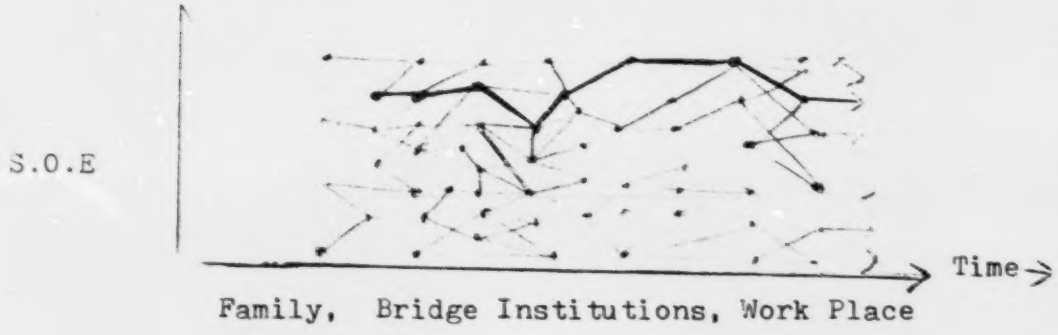

Figure 1 illustrates the concept. Each node represents entrance to a particular development/utilization opportunity. The D/UO Path for an individual is shown by the dark line. The fact that opportunity paths branch more frequently in the period when youths choose among bridge institutions and in the early work years reflects the fact that opportunities narrow as the result of previous choices. The greater the social mobility the more upward and downward opportunity paths. Conversely a pure caste system would be illustrated by a lack of linkage between various D/UO Paths.

Of course, our illustration fails to reflect the complexity of the actual system. A traditional society provides few choice branches. For instance, in a traditional society the rough features of an individual's D/UO Path may be known at the .90 confidence level. Opportunity paths become more difficult to map as societies become more urbanized, skill requirements become more complex (and change more rapidly) and family characteristics become more diverse. But complexity should not refute its value as a theoretical construction. Given the validity of the concepts, we need to develop a model of opportunity allocation.

THE EXCHANGE MODEL

The mainstream of neo-classical economics has traditionally viewed labor as a commodity that is combined with other resources to generate output. Individual incomes are determined by the price and quantity of human capital sold in the market. From this perspective the role of the developmental system is to augment the quantity of human capital that an individual possesses. While there are occasional references to nonproductive uses of developmental opportunities--better citizens, better leisure time usage,

etc.--such concepts are difficult to operationalize within the paradigm.

The exchange model assumes that individuals are aware of alternative opportunities. They will spend resources--money, effort, time, etc.--in order to gain access to an institution providing development/utilization opportunities if the expected benefits they receive are greater than their costs. For instance, Becker states:

> Analytically, the optimal allocation of time between two occupations A_1 and A_2 would depend not only on the current wage rate differentials but also on the influence of the current allocation on subsequent differentials. By allocating most of his current working time to A_1, one might convert negative existing differentials into sizable positive differentials at later ages. ...The analysis can be greatly simplified... by assuming complete specialization in a single occupation. The problem is then reduced to deciding whether the stream of earnings obtained by specializing in A_1 is preferred to the stream obtained by specializing in A_2. (p. 173)[3]

A central postulate in the human capital approach is that individuals have differing abilities and ambitions. Consequently, the individual rewards of alternative D/UO Paths will vary. Thus while children from both enriched and deprived backgrounds may choose a career in "sales" for example, the prospective rewards will differ if one of the individuals has greater affective skills. Likewise, intellectual and physical skills will cause rewards to differ. Individuals will also select alternative development/utilization opportunity paths because of alternative ambitions. Conceptually the rewards that individuals seek may be both pecuniary and non-pecuniary (although psychologists and sociologists are often skeptical at the ease with which nonpecuniary goals--often vague, confused, and even contradictory--are converted into dollars or

abstract units of utility).

At the same time individuals choose developmental/utilization opportunity paths for themselves (or as in the case of children, have paths selected for them) opportunities must be rationed on the basis of advantage to the individual or institution making the selection. Perhaps the clearest example is the desire of businesses to hire the most productive workers possible at the prevailing wages. The personnel manager may be evaluated on objective indicators of productivity of the persons he recommends. Thus a personnel manager will prefer punctual, healthy, work-oriented individuals to those who have traits that may be perceived as unstable.

In addition to the individual opportunities, the forces that determine the nature of the existing global opportunity system and the forces that cause the opportunity structure to change should be examined. With a few notable exceptions neo classical economists have eschewed the problem of institutional change. The D/UO System that characterizes a city is determined by forces generally beyond the control of individual actors and rather attributed to such exogenous forces such as government policy, the state of the economy, values, and so forth. This is not to say that an individual has no choice among various D/UO Paths. Rather it is the existing opportunity-providing institutions that are beyond the control of a single individual. It is rare when a single individual can create a new university, or even an extra berth in a law school.

Yet opportunity systems do change over time as institutions evolve or innovate. The same motives, the same invisible hand, that channels individuals through the D/UO System will cause institutions to evolve or mutate. Individuals, normally acting

through institutions, find that because of a disequilibriating change in the environment, their objectives can be better served by alternative institutional arrangements. However, institutional change is costly to initiate so individuals will invest resources to create alternative D/UO Systems only if the expected benefits outweigh the costs. While such a calculus of costs and benefits need not always be in monetary terms, individualistic, utilitarian calculation is a necessary feature of the exchange model.

Davis and North summarize the exchange model of institutional change:

> We postulate that economic institutions are innovated or property rights are revised because it appears desirable for individuals or groups to undertake the costs of such changes; they hope to capture some profit which is unattainable under the old arrangement.
>
> An institutional arrangement will be innovated if the expected net gains exceed the expected costs. Only when this condition is met would we expect to find attempts being made to alter the existing structure of institutions...(p. 10)[4]

Thus opportunities change when a disequilibriating force makes it possible for some groups to capture gains by altering the institutional arrangement.

The development of affirmative action programs or accelerated educational programs focusing upon racial minorities are examples of recent and ongoing changes in the D/UO Paths faced by many Americans. The exchange interpretation of the institutional change would begin with the increased political power of Blacks due to voting changes and/or the increased "Black awareness." Blacks saw that their individual prospects could be enhanced by such programs. This change is exogenous, but it caused pressures to be brought against politicians and members of the educational bureaucracy. Policy makers and administrators responded in ways that enhanced

tenure in office, promotions, or less aggregating life styles. Thus the change in opportunity structure resulted from individual, self-interested behavior.

Implications of the Model: Perhaps the most noted educational implication of the exchange model is the voucher system suggested many years ago by Friedman.[5] If exchange forces create opportunities then public policy ought to encourage market-like mechanisms of social organization. Thus the voucher system provides parents with "funds" to spend for their children's education. Availability of loans through private sources could supplement the government financed vouchers and private funds for those who wanted higher quality education or more years of schooling than would be affordable under the voucher system. The schools would find it in their interests to provide skills since skill provision is linked closely to the self interest (profits) of the providers. If new institutional arrangements were needed, the "dollar vote" would make the development opportunity providers (i.e. the for profit schools) more responsive and the DU/OS will be affected more quickly than if the pressures for change had to filter through a governmental bureaucracy.

The purpose here is not to discuss the efficacy of the voucher plan. The debate regarding whether the market mechanisms can work in the educational context is beyond our scope. The origins of the proposal however are clearly grounded in the exchange model.

Tullock, drawing upon the exchange model, has developed an implication that suggests government may be ineffective at creating opportunities.[6] Since utility maximizing individuals are willing to spend resources to gain access to a DU/O Path up to the point

where the marginal expected benefits equal the incremental costs, competition among potential entrants will increase the costs to limited developmental opportunities if government policy attempts to increase the benefits or to lower the cost of a development opportunity. For instance, if government action increased the reward (or lowered the costs) associated with a particular type of training by providing scholarships or guaranteeing good jobs to those with the training individuals would crowd into the field. Competition among those seeking the D/UO would cause costs of admission to increase. If, on the other hand, number of entrants were not limited (so there was no institutional rationing problem) then the rewards for those pursuing the D/UO Path would fall because the increased supply would cause wages to decline.

Tullock recognized that some gains might accrue to individuals during the adjustment period. In our example individuals who were just ready to enter the D/UO Path when the government action increased the net benefits from such a choice might receive gains. The gains, however are transitional, and not permanently associated with the development/utilization opportunity.

THE GRANTS MODEL

Concepts of grants economics offer an alternative framework for understanding the development/utilization opportunity system. Whereas exchange models examine resource allocation in situations where A gives something to B in return for something of comparable value, grants economics explores the nature of unilateral transfers.[7] According to the exchange model individuals are motivated by personal gain. In the grants economy motives such as "love," "obligation," "status attainment" and "tradition" dominate self

interest. The granting orientation is embedded in the attitude: "You do something for me because I am your father, or a king, a priest, a teacher, a lover, child or student and so on."[8] (p. 26)

Polanyi has argued that exchange behavior is a secondary organizing force. He described the interrelationship of granting motives and the economic process.[9]

> The outstanding discovery of recent historical and anthropological research is that man's economy is, as a rule, submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claim, his social assets...Neither the process of production nor that of distribution is linked to specific economic interests attached to the possession of goods; but every step in that process is geared to a number of social interests which eventually insure that the required steps be taken. (p. 46)

Thus, the grants model does not deny that opportunities are granted in a way that may provide benefits to both the grantor and grantee, but here is not an exchange, not even an approximate quid pro quo, in the allocation or choice of developmental/utilization opportunities. Furthermore, the grants model implies that prospects for personal enrichment by exchange in the allocation of opportunities are limited by the granting motives and social pressure.

The grants model is less well understood and more difficult to analyze compared to the exchange model largely because individual motives are more complex. Nevertheless, implications of the model for the allocation of development/utilization opportunities have substantial empirical support. Whereas the exchange model suggests that opportunities are chosen on the basis of a utility cost/benefit calculation, the grants model suggest that custom or tradition are more important factors. Thus the fact that the Brahmin caste

avoided business endeavors is attributable not to the fact that opportunities for gain were absent, but rather that such a D/UO Path was not even considered in a calculating manner. The fact that various minority groups cluster in a band of occupations also suggests that tradition and custom are important in selecting opportunity paths.

The grants model also implies that opportunities are allocated on the basis of obligation rather than direct gain to the individual or institution providing the opportunity. Thus personal traits rather than exchange value are the key to access. Entrance to accelerated programs in school is allocated on the basis of merit, family status, or law, rather than exchange.

Likewise, the grants model implies that the D/UO System changes in response to needs of social cohesion and obligation towards individuals and groups. The development of affirmative action was discussed earlier from the perspective of the exchange model. The grants model would suggest that the development of affirmative action programs: (1) were designed to mend the rending social fabric evidenced by civil disturbances and/or (2) the outgrowth of an awareness of unequal opportunity coupled with shifting values towards racial opportunity differentials.

The institutions that constitute the D/UO System are organized to a large degree around grants rather than exchange principles. Often the institutions operate in the exchange economy when dealing with one another but eschew or at least soften such principles in internal operation. The family is the base of the D/UO Path for most individuals. Aspirations and cognitive and affective skills are developed within the family. Although there are elements of

exchange in family organization most family behavior is role and status related. The bridge institutions are perhaps the most obvious policy intervention point because they are largely governmental institutions and greatly influence an individual's developmental/utilization opportunities. Yet it is very difficult to envision these as primarily exchange institutions. For example, a medical school could charge a fee equal to the present value of the expected income increment attributable to medical education. But such behavior would violate a social norm regarding who should attend medical school. A child's benefits from the Boy Scouts, for example, are not a function of what the child or parents can pay the troup leader. Even within the work place opportunities are not allocated according to exchange principles. Opportunities to learn additional job skills, for instance, are seldom allocated strictly on ability or other predictors of the possible marginal revenue product that the individual will generate for the firm. Rather, criteria such as formal education seniority minimize disruption that could result from pure exchange allocation of opportunities. The labor union is another organization of the work place. While it clearly operates in the exchange economy when dealing with employers, its internal organization is determined by principles of status, tradition, and custom.[10]

There is a close association between the functions of D/UO Systems and issues of societal maintenance since the development and use of skills involve the transfer of opportunities from one generation to another. The proclivity of unions to give apprenticeships to relatives of journeymen or of medical schools to admit the offspring of physicians is a recognition of the intergenerational aspects of skill development.

The philosophy and history of the major bridge institutions are frequently explicit about the need to contribute towards societal maintenance. The history of public education, for example, can be explained far better by analyzing the extent of the value commitment to "equal opportunity" or social cohesion than by exploring opportunities for mutual gain. Because of the belief that opportunities should not be allocated along exchange lines, most of the development opportunity institutions, especially the educational system, are organized so as to minimize exchange possibilities.

Implications of the Grants Model: Several propositions have been developed to analyze the urban grants economies.[11] While the principles were originally designed to explain transfers of money and in-kind goods and services, they also have implications for the allocation of development/utilization opportunities.

The first implication can be summarized: "the same markets that create wealth create poverty (The Henry George Rule)." As the exchange system creates wealth for some individuals, it reduces wealth for others.[12] The same dynamic forces operate in the D/UO System. If opportunities were allocated purely on the basis of excahnge principles, uneven access to opportunities would create pressures for alternative arrangements. Thus increased reliance upon exchange principles will both create and negate opportunities for various groups. Even if exchange principles determine only part of the behavior of the D/UO System, the nature of those institutions that are organized on granting concepts will also be affected as change in one sphere creates pressure for change in another.

However, like the exchange system, allocation of opportunities by grants sector is not necessarily progressive. The British Army in the 19th century was an opportunity granting system that was regressive--providing more opportunities to those with the most options initially. In fact we have no reason to believe that one organizing principle is more or less regressive than another. Thus the second principle of granting systems is that "wealth is created and destroyed by involuntary one-way transfers." Applying the concept to the opportunity development/utilization system and combining it with the first axiom we may conclude that opportunities may be created or destroyed by involuntary changes in the opportunity system.

A widely recognized granting principle is that "transfers tend to be viewed as permanent property rights." Federal farm programs that support agricultural prices are currently viewed by many farmers as permanent rights and so are a wide variety of other grants. The same behavior characterizes the allocation of development opportunities. A good example of the contention that individuals view certain opportunities (that initially were grants) as rights is the resistance in areas of the best neighborhood schools to city wide busing programs. The prevailing feeling is that their children had a right to attend a particular school.

Policies designed to stimulate opportunities for particular groups are often caught in granting traps. Special school programs, often viewed as experimental by administrators, are quickly assumed to be an established part of the D/UO System by families taking advantage of the program. Access to the institutions may be assumed to be a right and termination of the D/UO will be politically

difficult. Consequently some D/UO's might be designed to be self-terminating so as to minimize the rights perspective.

The fourth granting concept is that " an old grant is a good grant" because changes in the structure of grants cause readjustment costs. Likewise, adjustments in the D/UO System involve readjustment costs since individuals invest efforts in the belief that the D/UO System will be stable. For example, suppose the requirements for a high school diploma were changed so that certain reading and mathematics levels rather than mere attendance were required for graduation. The change would disrupt the plans of those who may have lacked the skills needed to graduate but who felt that a diploma would prove useful. The time they spent would have been wasted. Conversely, a lowering of the standards would be disruptive to those whose developmental plans required a given level of skill.

The proposition that an existing D/UO System is a good one should not imply that the opportunity structure should not be changed. In the words of David Harvey, the Status Quo may have nothing to quo about. The point is that changes in the D/UO System involve costs that should not be ignored when planning institutional changes. Furthermore the costs will be a function of the rate of change as well as the type of change. "Grandfather" clauses may significantly reduce the cost of changes to individuals and avoid the discouragement of individual planning that will result from frequent changes in individual D/UO Paths.

"Urbanization by virtue of the breakup of the extended family and the small geographically-bound community, has accelerated the replacement of private giving and helping with public granting." Likewise, urbanization has encouraged the involvement of public agencies in both individual guidance and the structure of the D/UO

System. Ginzberg described the simplicity of most development/utilization opportunity paths in traditional society:[13]

> In traditional agricultural society, the manpower development system is coexistent with the extended family...His family is not only his instructor but in many cases eventually also his employer. (p. 65)

The description contrasts sharply with urban societies where development opportunities are divided among a variety of both public and private institutions. This fragmentation makes coordination necessary. Furthermore the better the grants model explains the allocation of development opportunities, the more important it becomes for institutions to plan and coordinate their actions. The invisible hand may coordinate and buy/sell decisions in the exchange economy, but such an "automatic" mechanism is lacking in the grants sector, so conscious coordination--partnerships--are more important..

The problem for the individual in navigating a D/UO Path is also complicated by urban complexity. The likelihood that two members of the same family will traverse similar D/UO Paths is less in urban than rural society so that information regarding the proper steps within a path is often lacking and usually imperfect. Yet the more fragmented the institutions the greater the information needed. The proliferation of government counselling and manpower programs can be attributed to urbanization and the complexity of job requirements.

The sixth implication of the grants model is a normative principle: "a well functioning city or urban system ameliorates problems of its subeconomies and attempts to integrate its social systems through a series of grants." The generation and allocation of development and work opportunities is an important social as well as economic function because work is important in defining

one's place in the social system.[14] Policies of pure cash transfers or blatant make work programs may reduce poverty but are likely to lack the integrative features of a well functioning D/UO System. Unfortunately, while the opportunity development system can be a mechanism for ameliorating problems and bringing subgroups into the mainstream of society, it is often a center of controversy. Access to development/utilization opportunities is frequently the turf on which groups contest for social roles and images. The conflict, evidence of the importance attached to access to D/UO Paths, is frequently focused upon the educational system and other bridge institutions.

SYNTHESIS

The exchange and grants models are not mutally exclusive. For example, many elite, bridge institutions have high tuition and other requirements that are characteristic of grants allocation such as test scores, family status, and state of origin. Furthermore, while not all non-monetary qualification for a developmental opportunity may be analyzed as exchanges, many individual traits generate benefits to the institution or individual rationing the opportunities on the basis of implicit and indirect exchange. Perhaps the best example of an exchange that does not involve money is the athlete clearly bound for a professional career who enrolls at a major university. The individual wants training and exposure to the pro scouts; the institution wants the notoriety associated with a successful team; the coach who admits the athlete wants a successful career.

The problem of empirical classification is further complicated by the fact that the same trait can be evidence of admission on

either exchange or grants criteria. A law school that admits the top 5% of a college class may be operating primarily in the grants economy. A law firm that hires on the basis of roughly the same criteria (upper 5% of a law class) may be operating on a strictly exchange model.

In addition, the same institution that selects entrants on the basis of what individuals can do for the organization (exchange) may promote on the basis of minimizing hard fillings, friendships, or justice. Thus internal development opportunities are rationed on granting principles.

Further difficulties of empirical classification of developmental opportunities are created because different standards may apply to different groups. Granting criteria also may be a preselection device but exchange principles may determine who in the preselected group is given access to a D/UO Path. For instance, only white males may be admitted into certain training, but which white males? Further selection may be based primarily upon the marginal revenue products that they generate for the institution. Conversely, exchange criteria may be a preselector--only individuals who can generate sufficient benefits to the institution will be given an opportunity--and granting standards may be the secondary standards.

The analytical insights of both the exchange and grants models are useful in understanding the complex forces that cause changes in the institutional environment. The grants perspective implies that value changes and shifts in population among social groups will create pressures to revise the D/UO System. The exchange model lends itself to analysis of the impact of technological innovations and changes in the resource stock and other

exogenous factors that shift the marginal revenue product of entrants. It is doubtful that either paradigm can provide a satisfactory explanation without the other.

Partnerships in Education: The concept of a development/utilization opportunity system implies the need for partnerships between the family, the various bridge institutions, and the work place. However, the emerging partnerships will involve coordination among institutions that allocate opportunities on different criteria. The multiplicity of operating principles will make coordination difficult. Furthermore partnerships must seek not only to increase opportunities to individuals in general, but also to allocate the opportunities. The individuals who enter the new D/UO Paths will depend upon a combination of exchange and grants principles within and among institutions.

This paper did not answer the question of how to allocate optimally the opportunities that will be created (and destroyed) by changes in the D/UO System. Each model has its own normative standards. The exchange model primarily values efficiency and the grants model social integration. The policy synthesis might involve trade-offs between these goals as it allocates opportunities.

Footnotes and References

[1]S. M. Lipset and R. Bendix, Social Mobility in Industrial Society (Univeristy of California Press, Berkely), 1959.

[2]Some of these concepts were developed in Eli Ginzberg, The Human Economy (McGraw-Hill, New York), 1976. "The process of skill acquisition and utilization is dependent on a group of interdependent institutions which, in advanced societies, includes at a minimum the family, the school, and employing organizations. Also included in varying degrees are such institutions as the church, the military, youth groups, and various professional and employee organizations." (p. 220) The terminology also conforms as much as possible to that used by Ginzberg.

[3]Gary S. Becker, Economic Theory (Alfred A. Knopf, New York), 1971.

[4]Lance E. Davis and Douglass C. North, Institutional Change and American Economic Growth (Cambridge U. Press, Cambridge Eng.) 1971.

[5]Milton Friedman, Capitalism and Freedom (The University of Chicago Press, Chicago) 1962, chapter IV.

[6]Gordon Tullock, "The Transitional Gains Trap" The Bell Journal of Economics Vol. 6 No. 2 (Autumn, 1975) pp. 671-678.

[7]Kenneth E. Boulding, A Primer on Social Dynamics (The Free Press, New York) 1970, p. 25.

[8]Ibid, p. 26.

[9]Karl Polanyi, The Great Transformation (Beacon Press, Boston) 1957.

[10]At this point supporters of the pure exchange model might develop arguments that show there is really a rough although hidden quid pro quo. For instance, seniority might be explained as a means of reducing screening costs, or it might be argued that seniority is a proxy for higher revenue product.

Refuting these arguments is like refuting the oft heard contention that there is no such thng as altruism. Suffice it to say that the more hidden the utility maximizing motives the less power the exchange model has as a tool of analysis.

[11]John P. Blair, Gary Gappert, and David C. Warner, "Rethinking Urban Problems: Inequality and the Grants Economy" G. Gappert & H. Rose(eds) Social Economy of Cities (Sage, Beverly Hills, California) 1975. Each of the grants concepts which follow and are in quotes in the next few pages are attributable to this source.

[12]This is not to say that the exchange process is only a zero sum game.

[13]Eli Ginzberg, op cit.

[14]The contrast between the exchange and grants model regarding the concept of work is interesting to note. While the grants model presents work as a integrative link between the individual and society, the exchange model treats work as a "bad." Because of the onus of work, compensation is required. Absence of work is therefore a "problem" only because production is lost and/or the individuals who are unemployed have lower incomes. The implications of the contrasting views for public policy have yet to be widely understood.